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PUERTO RICO 2000: BUILDING A NEW FUTURE

by

Griselle Boria-Marcano

A project submitted to the Faculty of
the School of Food, Hotel and Travel Management
at
Rochester Institute of Technology

in partial fulfillment of the requirements
for the degree
of
Master of Science
in
Hospitality-Tourism Management

March, 1995

ROCHESTER INSTITUTE OF TECHNOLOGY
School of Food, Hotel and Travel Management
Department of Graduate Studies

M.S. Hospitality-Tourism Management
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I would like to recognize the years of support two persons have given to me through all my life: my parents. Thanks for your encouragement and trust in me on pursuing my goal.

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ABSTRACT

This study focuses on the identification of limiting conditions affecting the tourism industry in Puerto Rico. In order to provide a clear understanding of the tourism situation of the island, a broad outlook of the tourism performance is presented. It includes an economic background of Puerto Rico and the tourism activity, as well as a discussion of the areas involved and their problematic issues.

The information gathered for this study was developed through personal interviews and primary data sources. While searching for problematic issues affecting the tourism industry, eight limits to growth were identified as most relevant: High Hotel Room Rates; Insufficient Number of Room Available; Cuba as a Potential Competitor for the Caribbean Tourism; Financial Problems Affecting the Cruise Industry; and High Crime Rate.

These problematic issues were schematically presented in form of "Limits to Growth" cycles (Peter Senge's *The Fifth Discipline* [1990]) and placed in a matrix to compare and analyze the findings.

CHAPTER 1

INTRODUCTION

The Puerto Rico tourism industry suffered enormous changes in its performance, changes that had reduced the tourism potential in the Island during mid-1970s to mid-1980s. In a global context, the difficult economic situation in the United States had enormous repercussions on Puerto Rico's economy (since Puerto Rico is a Commonwealth of the United States); this, combined with a strong competence in the Caribbean tourism performance, affected tourism in the Island. For many years, countries such as Cuba, the Dominican Republic and the Bahamas set the pace for tourism in the area. Excellent resorts were developed with best money value for vacationing visitors. At that time, Puerto Rico did not have the potential to achieve the same quality of resorts.

Today, the Puerto Rican economy is affected by other larger economic factors; changes in the US Tax Exemption Act, the opening to Mexico through the North America Free Trade Agreement (NAFTA), as well as the barriers' reduction on goods and commodities through the General Agreement on Tariffs and Trade (GATT). In the 1950s, the US was the principle economic force in the Western Hemisphere in attracting direct investment. Today, there are new players in the global market who not only compete in terms of low labor cost, but also in terms of a sophisticated scientific and technological infrastructure. These factors are the most important forces that are moving Puerto Rico's government to create a new economic model to improve and to develop the future of the Island.

The previous model was based on general tax exemptions, the reliance on the manufacturing sector, and the privileged access to the North American market. The new model, in contrast, strengthens the local entrepreneurial capacity, leads general incentives to improve the quality of the labor force and improves technology; it also identifies other market besides the US to increase its competitive advantage in the global context .

Aware of this necessity to re-evaluate the Island's economic pace, the present government has strategically committed to duplicate the contribution of tourism to Puerto Rico's Gross Domestic Product, from 6% to 12% in the next ten years. This recovery has been no less than extraordinary. What in those years of stagnation could have meant hotel's shutdown, a decrease in tourist arrivals and a weakened cruise industry, have recently become:

- The beginning of restoration works in hotels and other expansion projects with an investment of more than \$400 million.
- The rise of 70.31% in total number of visitors
- A dramatic increase of 106.5% of cruise visitors
- Forty percent more flights daily.¹

The positive effects for this new vision are clear. Focusing more interest in tourism development is a key factor to improve the Island's economy.

This study seeks the reasons of this growth. Why have the government and the private sector shown such great interest in the tourism industry recently? What political, social and economic factors encourage the industry to become one of the strongest economic bases of the Commonwealth? What strategies have been and are being used to build and sell Puerto Rico as an international destination? What can the future hold?

¹ *Tourism In PR*, Puerto Rico Tourism Company, 1992, pg. 1

These questions among others will serve as a guide for the review of literature, providing keys to understanding the dynamics of Puerto Rico's tourism industry.

PURPOSE OF STUDY

The purpose of this study is to identify the most relevant threats of tourism in Puerto Rico. This study is of great importance since tourism is perceived as one large factor that spearheads the economic development of Puerto Rico. For that reason, it is important to understand the status and history of the industry to expose answers to the questions above, bearing in mind that these problems not only affect the tourism field, but the economy of the entire country.

By studying Puerto Rico's tourism activity, as well as the problematic issues surrounding the field, the intent of this study is to provide a broad view of the present situation and evaluate the short or long term results. This study could also serve as a potential source for those who seek to learn more about the industry in PR and/or work for it. Lastly, the importance of addressing problems or limitations in order to achieve the goals and to improve the industry can become evident.

PROBLEM STATEMENT

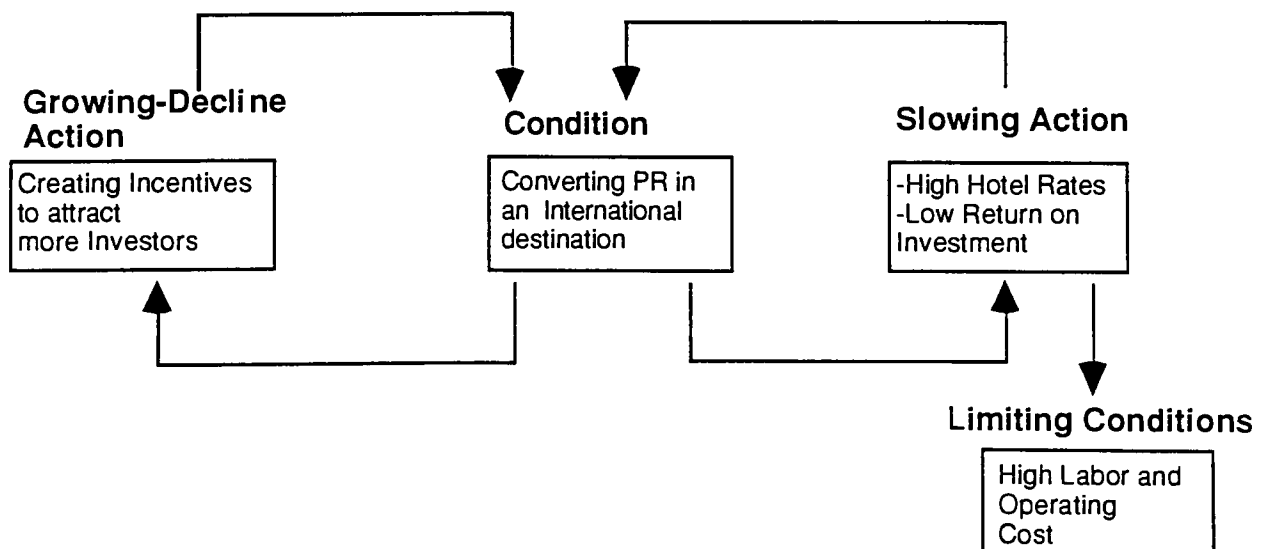
Tourism plays an important role in the economic and technological development of nations. Puerto Rico, as well as other countries of the Caribbean, are beneficiaries from tourism as it contributes overwhelmingly to their respective trade of accounts. Since tourism is a relevant economic base for Puerto Rico, the government and tourism related agencies are focusing

efforts to increase the potential of tourism in the Island. Although the number of visitors has been more or less consistent, the industry is being affected by significant problems and limitations that could slow the pace of development, if those are not assessed.

Peter Senge (1990) in his book *The Fifth Discipline* demonstrates several ways to understand problems schematically through "Archetypes." An archetype that can represent this problem statement thoroughly is the one he calls "Limits to Growth;" It is defined as follows:

"A reinforcing (amplifying) process is set in motion to produce a desired result. It creates a spiral of success but also creates inadvertent secondary effects (manifested in a balancing process) which eventually slow down the success."

The following example is a diagram that represents one of the reinforcing cycles acting in Puerto Rico's tourism industry:



What limiting conditions or circumstances represent threats to tourism in the Island? These limitations need to be addressed and identified in order to then create more effective dialogue.

BACKGROUND

Puerto Rico is an Island located on the northern edge of the Caribbean Basin, about 1,000 miles southeast of Miami. It has a population of 3.3 million people, largely of Spanish and African origin although traces of the previous Taino inhabitants can be seen. The land area is about 3,500 square miles.

Fifty years ago, Puerto Rico was one of the poorest countries of the Western Hemisphere. The poverty, unemployment and illiteracy predominated so thoroughly that the Island was known as "the Caribbean poor people's home."

At the end of the 1940s, the Puerto Rico's government made an important decision: it put into effect all necessary steps to change the economy from agricultural based economy to an industrialized nation.

On improving a section of the United State Taxation Code, Section 936 the government of Puerto Rico carried out the program "Operation Bootstrap." This program is an integral series of incentives whose objective was to lure North American investments to the Island's manufacturing sector.

As shown below, Puerto Rico was transformed into a prosperous industrial economy:

- Employment has almost doubled after 1950: from 596,000 to more than 900,000.
- The Gross Domestic Product increased from \$3.7 billions in 1950 to more than 20 billion today.

- Imports and exports increased to more than 25 billion (more than all rest of the Caribbean countries combined).²

In total, the Puerto Rico economic development strategy has brought spectacular results. The poverty and despair decreased due to new job opportunities, creating a stable middle-class, developing and promoting industrial investment and new enterprises.³

The new government of Puerto Rico (after November 1992 Elections) recognizes the importance of 936 companies on the Island and the contribution that they have provided to the economy for more than 50 years. But at the same time the government is aware that the economy of Puerto Rico has depended basically on the local tax reliefs and on Section 936 as the principal incentive factors for economic activity.

During the last two years, these competitive advantages have been reduced due to changes by President Clinton on Section 936. The US Congress has been questioned the 936 provisions since it was representing revenue lost to the US Treasury. Puerto Rican officials and private sector executives from last administration rejected this claim and emphasized the benefits 936 funds have brought to the local economy. The following quote shows one of the reasons officials and executives were concern about the possibility of losing 936 benefits: "The firms operating under 936 are responsible for over 100,000 direct manufacturing jobs and another 300,00 indirect jobs, or one third of the Island's employment."⁴ Officials also pointed

² *Benefits and Costs of Section 936*, Price Waterhouse, May 1991, pg. 42.

³ *Section 936: Cornerstone of the Economic Growth of the United States and Puerto Rico*, Puerto Rico USA Foundation, 1992.

⁴ Puerto Rico The Spirit of Success, *Fortune*, [Special Advertisement Section], December

out that if the tax benefits were withdrawn, many of the 936 companies would not move back to the US mainland, but would move to other locations where skills are high and tax treatment attractive.

The government of Puerto Rico has recognized the need to develop a new economic model that emphasizes other competitive capacities. It also substitutes and/or complements the general incentives with other strategies, such as those which will improve the quality of the labor force, strengthen the scientific and technological base, and improve public infrastructure.

In this model, tourism plays an important role. Some of the actions the government will carry out are:

- To improve the tourism product and diversify the markets to which the campaign is directed.
- Through the legislation already approved, facilitating the financing of tourist installations, using mechanisms as the PR Tourism Development Funds as well as the incentives provided by the 1993 Tourism Development Law.
- To sell the government hospitality properties to private enterprises.⁴

These and other ideas that define the different economic areas, suggest an important change in the economic development processes. Researching Puerto Rico's tourism and economic development is an opportunity to describe the historical aspects related with this growth. Such analyses can be used as an important tool to better explain the reasons of this development, and

14, 1992.

⁴ PR Planning Board 1993 *Governor Economic Document*, , ch. 6, pg. 9.

therefore, why political or economic circumstances can determine the future of the tourism industry .

SIGNIFICANCE

If the factors contributing to Puerto Rico's phenomenal tourism growth can be isolated, and if the potential roadblocks for its future can be identified, strategies and tactics can be created. These tactics will create a balanced growth cycle with actions in the form of new goals and sources.

METHODOLOGY

Rather than develop a whole separate section to describe the methodology process, I will explain the procedures carried out to collect the information needed. The information for this study was collected from personal interviews. Executive managers (23) of the PR tourism industry and tourism related agencies were selected and contacted in order to arrange and conduct the interviews.

The purpose of the interviews was to seek a range of expert opinions about the tourism situation in the Island. This process gave me the opportunity to get an outlook of the areas they represent including particular problems of relevant importance and to obtain their specific points of view about the limits to growth that this study identifies.

The questions for these interviews were specially designed in accordance with the particular sectors the experts represented. This study does not attempt to develop a statistic pattern or census (from this size) in terms of the data collection, but to sustain the assumptions that had been established

previously. The questions were divided in the following categories: opinions about the tourism industry situation as a whole; overview of the sector they represent and their specific limitations; opinions about the problems this study addresses, whether or not they consider them as limitations, why ,and their own recommendations.

Once the interviews were completed and preliminary data was collected, diagrams of “Limits to Growth” cycles were created to present the problems and limiting conditions affecting tourism in Puerto Rico. The information gathered was placed in a matrix scheme where different patterns were compared and analyzed.

LITERATURE REVIEW

Topics that will be reviewed include a historical background of the tourist activity in the Island, including hospitality and cruise line activity. A review of Puerto Rico's economy, cultural and social trends as well as an examination of the Caribbean tourism activity will be provided.

Sources for the research will include current industry journals and periodicals, such as *Tourism Management* and *International Tourism Report*. Puerto Rican journals such as *El Nuevo Dia* and *Caribbean Business*, are key tools to get the updated information about the tourism situation in the Island. Official Government documents and agency annual reports will be also analyzed. Recent government planning and implementations will be provided for content and usefulness.

HYPOTHESIS

A reasonable expectation of this work is that the threat and limits to tourism can be found. Further, the threats will furnish motivations to define actions to offset the risks of reduced levels of tourism.

DEFINITION OF TERMS

936 of the Internal Revenue Code: 936 is a section added to the code as a part of the Tax Reform of 1976 to offer tax incentives to North American companies stimulating both the investments in the manufacture sector and the creation of jobs in Puerto Rico and other possessions of the United States. In particular, it considers credits in Federal Income Taxes as to those incomes proceeding from qualified corporations operating in the Island and in the Caribbean Basin.

Commonwealth: It is the present political status of Puerto Rico established in 1952. It defines Puerto Rico as a self-governing Island associated with the United States.

"Paradores Puertorriqueños": It is a program established by the Puerto Rico Tourism Company in the early 1970s to promote tourism outside San Juan (or metropolitan area). It is an Island-wide network of lodgings that provide tourists with reasonably priced accommodations near places of natural or historic interest.

"Mesones Gastronomicos": It is a restaurant program that includes more than 50 restaurants across the Island. They offer the food of their particular area at reasonable prices and (as the "Paradores") served in a Puerto Rican family style.

Matrix Scheme: Type of chart used as a tool to draw problems and conclusions.

PR: Puerto Rico

US: United States

ASSUMPTIONS

Ideological: The analysis of the economic and political situation of the Island will serve as a tool to understand the impact of the tourism industry in the Island.

Procedural: It will be assumed that executive managers and representatives of the public and private sector will possess a working knowledge in the industry. Also it will be assumed that they have a clear appreciation of this development with which they can provide an objective point of view of the future of the industry, free of political bias.

SCOPE AND LIMITATIONS

Because of threats to the tourism industry are suppositions of future results, this study must rely basically on the ability to forecast from the sample of those interviewed.

After having identified the risks of the industry, this study will attempt to examine the plans and strategies that are in place to determine whether the industry is strengthening its resources and capacities.

PROCEDURES

The population of this study was the government of the commonwealth of Puerto Rico and agencies related with the tourism industry. The sample was represented by executive managers and specialists who are directly or indirectly related with the planning, designing and implementation of tourism projects on the Island. Some of these departments, agencies and non-profit organizations were:

- The Puerto Rico's Tourism Industry
- The Chamber of Commerce of Puerto Rico
- Budget and Management department, Governor Office
- PR Planning Board
- PR Hotel and Tourism Association
- Port Authority:
 - Airports and piers
 - Airlines and cruise lines representatives
 - Public Service Commission (Taxis buses and limousines)
 - Hospitality Industry
 - Parks and Recreation department
 - Puerto Rican Travel Agents Association
 - Caribbean Tourism Assoc..
 - Caribbean Tourism Research Center

LONG RANGE CONSEQUENCES

Should the findings of this study be in accordance with the hypothesis, it is to be expected that the limitations and/or problems of the Puerto Rico's tourism industry will be identified.

Should the results be contrary to the hypothesis, additional research method should be carried out.

Should the results be more or less equivocal, a prove or disprove method must be accomplished in order to verify if these limitations are really critical.

CHAPTER 2

Review of Literature

This study focuses on determining the limiting conditions affecting the growth of tourism in PR. In order to provide a general outlook of the tourism activity in the island, this study will provide a historical background of tourism performance since 1930s. It will also analyze the mechanisms involved in the tourism process along with statistic data of tourism trends in a 10 year period. A description of the most relevant tourism related agencies will be also provided.

Historic Background of the Tourism Activity in Puerto Rico

Since the beginning of this century, tourism has been considered as a potential activity for the economic development of Puerto Rico. However, it was not until the 1960s that the government started to focus special attention to this activity, initiating a serious development of the industry.

The first report presented by Governor Blanton Winship to Washington in 1934 shows the potential of this tourism activity:

“The possibilities for the development of tourist travel to Puerto Rico are unlimited... The insular government is actively engaged at present in a scheme to develop facilities for the accommodation of tourists. Plans for enlarging and making modern improvements in the present hotel facilities in San Juan, for the construction of cottages in the picturesque mountains of the National Forest Reserve of Luquillo, for the establishment of tourist hotels in other places of interest on the island, for building resorts, golf courses, and bathing beaches, and for the development of the thermal springs, have been submitted to the

proper authorities. The dredging of the entrance, the widening of the channel, and the extension of the anchorage area of San Juan Harbor, have been under consideration and it is hoped that this project will be approved soon so that work may begin and large tourist ships may be accommodated without difficulty.¹

However, the 1930s US economic crisis, discouraged the efforts to promote tourism. Subsequently Governor Rexford Tugwell eliminated the Tourism Institute. In 1943, in the middle of World War II, Governor Rexford Tugwell reported the end of the efforts to promote tourism:

“The Office of Information was established soon after the beginning of the fiscal year. This office took over the equipment and files of the Institute of Tourism, but inaugurated an entirely new program, limited exclusively to the preparation and dissemination of information concerning activities of the Insular government.”²

Tourism was almost disregarded during those years. Meanwhile, PR was trying other ways to improve the economy such as farming cooperatives, land distribution to low income families, the establishment of fabrics owned by the government, and the first industrial incentive program better known as Operation Bootstrap. This program represents the first attempt to boost industrialization to the Island. The purpose of this program was to create more jobs in the manufacturing sector.

The development of appropriate lodgings for industrial and business visitors was urgent. However, the idea that the government would invest

¹ Ross, David, *The Long Uphill Path*. Editorial Edil, San Juan, Puerto Rico. 1969, p.23-24.

² Op,cit ref. 1, p.25.

millions of dollars in hotel construction (for business travelers) was difficult for the inhabitants to accept. People could not understand why the government had to invest such huge amount of money in a tourism project while they were suffering of basic needs. Besides, the inhabitants could not see themselves beneficiatting from this investment.

The Industrial Development Company^{*} had to present the project as one that would develop the tourism activity and therefore the economy of the island. In this way this company could at least reduce the dissatisfaction about this project. The Industrial Development Bank through the Government Bank obtained a \$3.5 million line of credit to start the first important tourism-related project on the island: the construction of the Caribe Hilton Hotel. After negotiations with Hilton Hotel Corporation, the Caribe Hilton was inaugurated in 1949. This event set a precedent in the eventual development of the tourism in PR, since this hotel was the first Hilton operation outside the US and the first multinational hotel firm established in the Caribbean, The government was seen as an entrepreneur in the tourism activity, because this hotel was part of the Industrial Development Company and since it served as a lodging center for potential investors.

The success of tourism exceeded the most optimist expectations during the 1950s and 1960s. Some hospitality facilities were built, sponsored by the government and private enterprises. There was an increase in hotel project investments that raised the number of rooms available. The government effort was concentrated in advertising campaigns directed to the most important markets (such as US), along with the effort to attract important investment.

^{*} IDC: It is an agency part of the Government Bank in charge of creating new investment opportunities for industrialization of the island.

The decade of 1970, represented a decrease in the tourism activity situation that lasted until the middle 1980s. The United States was experiencing a hard economic situation, while in the rest of the Caribbean the tourism competition was increasing; these facts affected the tourism growth in the island. Puerto Rico could not position its tourism-product as a different destination from the rest of the islands of the Caribbean, due to shortage budgetary resources and its poor quality of resorts compared with those in the rest of the Caribbean.

The Caribbean tourism development was the result of a new attempt by these governments to diversify their traditional sugarcane economies. Tourism represented a favorable solution for these countries, since they received extra benefits from immigration and departure visa fees. Moreover, these countries were already increasing the number of visitors from European countries. The contribution of the tourism activity to these economies was related with the level of industrial diversification in each country, but its negative effect to the tourism in PR was also evident. The homogeneous character of the tourist-product in the region consisting of fine water-front hotels and casinos, motivated the movement of visitors to other Caribbean destinations that were offering the same product at a better rate than PR.

Puerto Rico was experiencing a high level of centralization in tourism activity. Moreover, there was a lack of coordination and organization to obtain a more diversified tourism that demanded a better quality of service. These and other factors resulted in a reduction in the number of visitors, a decrease in hotel occupation percentages, and therefore, visitor expenditures. The long negative bias in tourism activity trends provoked other difficult situations such as: projects financing problems, hotels shutdowns, employees' layoffs and the deterioration of areas of major tourist concentration.

In 1980s, the government carried out efforts to strengthen tourism in the island. In order to prevent shutdown of more hospitality properties the government bought some of them and conferred the management contracts to private companies. The government also created new tax incentive programs to reduce operational costs such as low water and electricity rates. They also allowed hotels to operate casinos during the daytime and the use of slot machines were approved on a permanent basis in order to increase hotels' revenue. Finally, they offered tax incentives related with per capita income.

The recovery of the North American economy, during the end of the 1980s, brought a substantial improvement in the number of visitors to PR. Cruise vacations became popular and caused an additional increase in the number of visitors to the island. Hotel occupation rates increased, and the hotel investment turned more attractive again.

Even though the Persian Gulf War did not last long, it resulted in an unbalance in the oil price. The losses reflected in the airline industry resulted in the permanent shutdown of two major airlines that serviced the island: Eastern Airlines and Pan Am Airlines. Also, financing capacities to carry out more tourism projects became more difficult and it delayed the process of some important investments.

In order to deal with this situation, the government reacted. It approved the 1993 PR Tourism Development law. This law seeks to facilitate the financing process, as well as debt through guaranteed fund (managed by the Government Development Bank), as capital through tax incentive programs for Puerto Rican investors. Even though it has not had a considerable impact yet, the government expects this law will bring excellent results in the near future. The results of this new law will be an alternative to accelerate investment process and to solve limitations such as insufficient number of hotel rooms. But

it does not represent a systemic solution to offset all the problems affecting the tourism industry.

Tourism Arrivals and Spending Patterns

On analyzing tourism trends in the PR's tourism activity, some categories can be identified that differentiate the type of visitors arriving to the island. In order to be more specific, this study will be using the following definitions (used by the Puerto Rico Tourism Company: Regular visitors: are those staying at least one night in PR; Special visitors: are those staying less than 24 hours (cruise passengers). These definitions correspond to the World Tourism Organization (WTO) definitions for visitors: Tourists and Excursionists respectively.

The number of visitors to PR has grown throughout the last decade. Even in years of recession in the US, the number of visitors has continued to grow. Part of the explanation lies in that many of the visitors coming to the island are Puerto Rican visiting friends and relatives.³

The total number of visitors to PR increased 4 percent in 1993, changing from 3,722,200 to 3,871,100. This increase shows the Industry's recovery along with the economic growth of the US. The visitors composition among special and regular visitors suffered an important change. Tourists' number increased of 7.4 percent, going from 2,658,800 to 2,856,600. While excursionists decreased of 4.6 percent reducing from 1,063,400 to 1,014,500 (table 2.1, Figure 2.1). This change does not establish any specific pattern,

³ Estudios Tecnicos, *PR's Tourism Industry: Outlook and Key Issues*, 1994, p.4

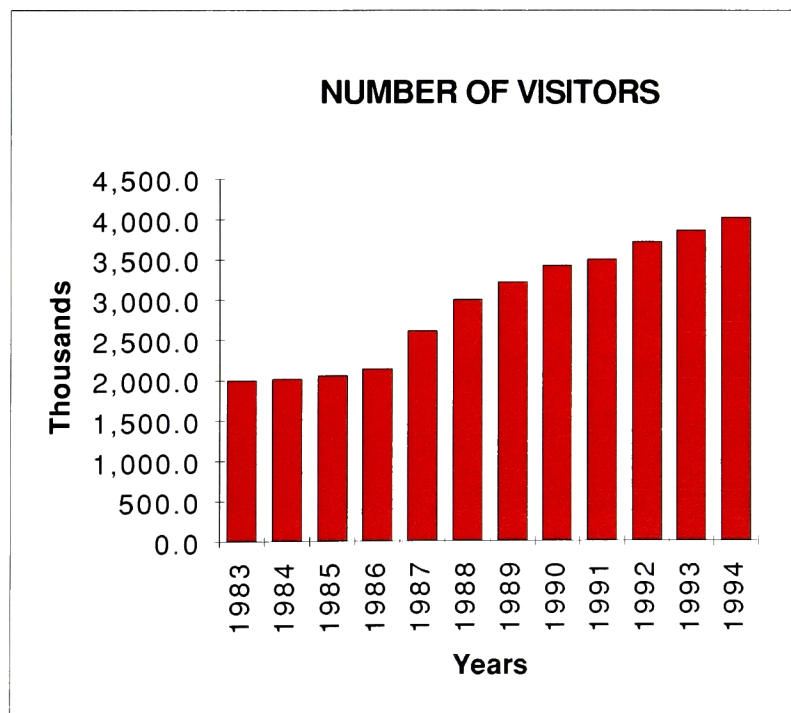
Table 2.1

Number of Visitors to Puerto Rico

Fiscal Year	Total of Visitors	Regular Visitors	Special visitors
1983	2,006.1	1,594.9	411.2
1984	2,018.7	1,582.7	436.0
1985	2,061.6	1,642.3	419.3
1986	2,144.6	1,695.6	449.0
1987	2,619.3	2,034.9	584.4
1988	3,004.2	2,280.5	723.7
1989	3,221.2	2,443.8	777.4
1990	3,425.8	2,559.7	866.1
1991	3,504.3	2,613.0	891.3
1992	3,722.2	2,658.8	1,063.4
1993	3,871.1	2,856.6	1,014.5
1994	4,022.6	3,042.4	980.2
Totals	35,621.7	27,005.2	8,617

SOURCE: PR Tourism Company

Figure 2.1



since the previous year presented an increase of almost 20 percent on the same type of visitors.

Visitor Expenditures

According to the PR Planning Board, visitor expenditures are directly proportional to the number of visitors. Visitor expenditures increased from 7.2 percent in fiscal year 1993, the major increase since 1989-90) amounting in current dollars from \$1.5 to 1.6 million. This same pattern can be seen in the number of visitors. The total expenditures of Regular visitors increased 7.6 percent, while special visitors decreased 1.8 percent (Table 2.2, Figure 2.2).

As stated before, most of the regular visitors stay at family and friends houses or maybe in other non-hospitality facilities (not recognized by PRTC^{*}). These visitors do not represent a relevant impact in the economy as those staying at hotels. However, the increase in the number of visitors staying at hotels and lodging facilities was of 5.4 percent, the major increase since 1989. Moreover, during 1989-92 period, the number of these visitors hovered around 650,000; and around 688,500 in 1993. The number of visitors staying at non-hospitality facilities increased 8.1 percent. This increase had not been seen since 1988-89 (Table 2.3, Figure 2.3).

The growth of Regular visitor expenditures by type of accommodation was slightly above of the one registered in the number of visitors. At the same time the number of visitors staying at hotels increased 6.3 percent. The expenditures of visitors not staying at hotels increased 8.3 percent, compared

^{*} PRTC: Puerto Rico Tourism Company: Government agency in charge of carrying out tourism development.

Table 2.2

VISITORS TOTAL EXPENDITURES

(Millions of dollars)

Fiscal Years	Total of Expenditures	Regular Visitors	Special Visitors
1983	715.9	695.5	20.4
1984	712.4	690.6	21.8
1985	757.7	736.5	21.2
1986	792.6	769.5	23.1
1987	955.4	924.9	30.4
1988	1,121.40	1,082.40	39
1989	1,254.00	1,210.60	43.3
1990	1,366.40	1,316.10	50.3
1991	1,435.70	1,381.30	54.4
1992	1,520.00	1,453.70	66.3
1993	1,629.10	1,564.00	65.1
1994	1,736.60	1,564.00	66.7

Source: PR Tourism Company

Figure 2.2

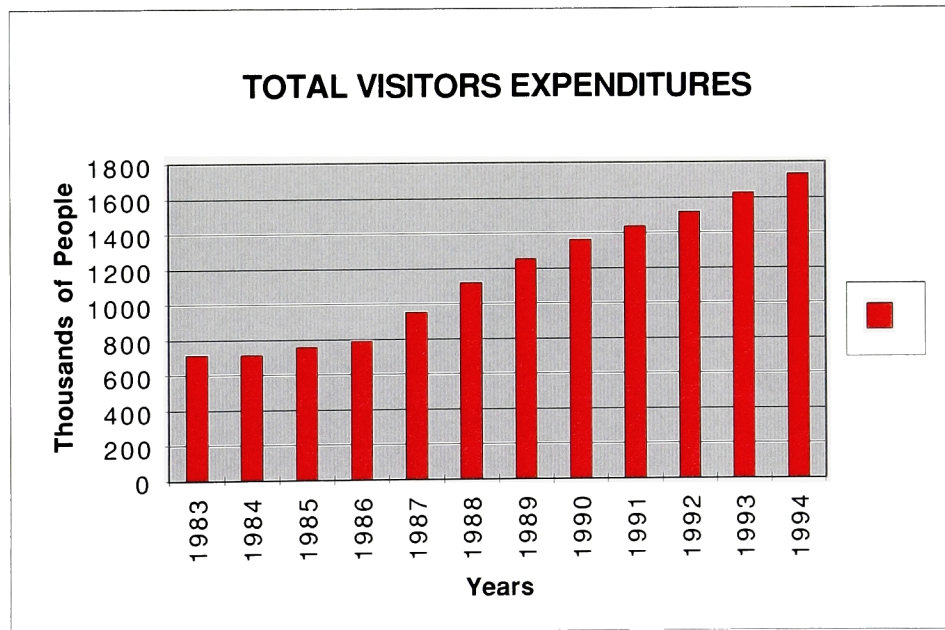
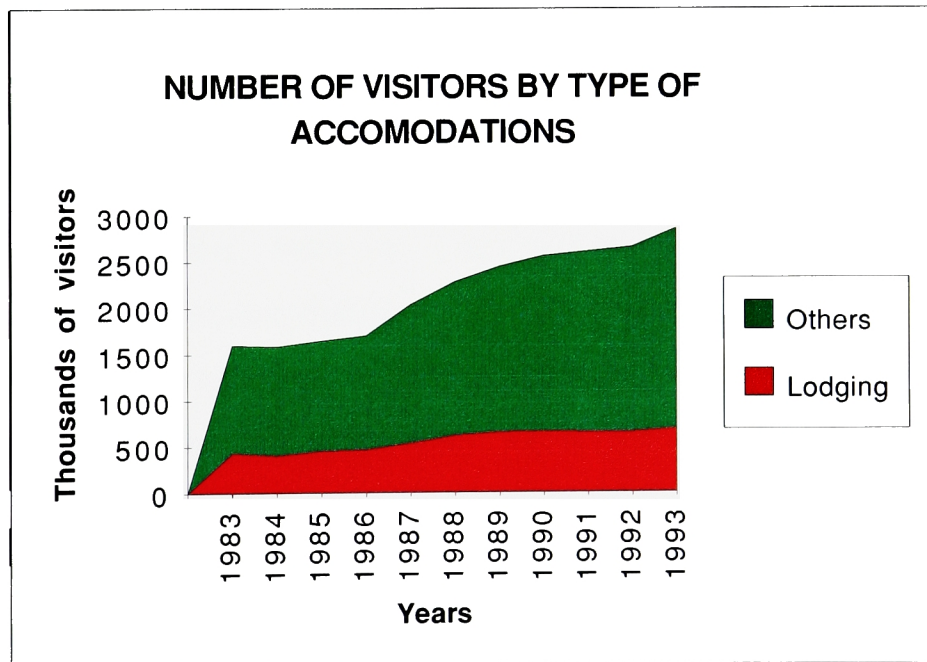


Table 2.3

**REGULAR VISITORS BY TYPE
OF ACCOMODATIONS**
(Thousands of Visitors-Years)

Years	Lodging Facilities	Others
1983	430.8	1,164.10
1984	400.9	1,181.80
1985	450	1192.4
1986	466.6	1,229.00
1987	536.4	1,498.40
1988	616.5	1,664.00
1989	651.8	1,791.90
1990	659	1,900.70
1991	650.1	1,962.90
1992	653.5	2,005.30
1993	688.5	2,168.10

Figure 2.3



with an increase in the number of visitors, This implies a real decrease in expenditures by person (Table 4).

In terms of the number of visitors by country of origin, US visitors increased 8.5 percent, compared to a decrease of 4.6 percent in visitors from US Virgin Islands , and an increase of 5.5 percent of foreign visitors. As a result, the total US visitors increased from 69.0 to 69.9 percent. However, the percentage of US visitors was below the level reached in 1983-87 period, when it kept above the 75 percent (Table 5, Figure 4).

Visitor expenditures by country of origin are parallel to the number of visitors. The major increase in visitor expenditures was registered by US visitors, reaching an increase of 8.5 percent over fiscal 1992. Foreign visitor expenditures increased of 5.7 percent and US Virgin Islands visitors expenditures decreased 4.2 percent (table 6).

Economic Impact of Tourism in the Economy

Tourism is an activity of great importance for the economic development of PR. Tourism demands goods and services from many sectors of the economy, such as: commerce, transportation, communication, entertainment, recreation and others. Moreover, it demands manufacturing and agricultural goods, as well as government services. The tourist demand for these goods and services have at the same time an important impact in other no tourism-related sectors, as they create links within the whole economic system. Tourism demand increases the total economic production of almost all economic sectors. Therefore, the combined tourism effect is greater than the income generated by visitor expenditures.

Table 2.4

**REGULAR VISITOR EXPENDITURES
BY TYPE OF ACCOMODATION**

Years	Lodging Facilities	Other
1983	262.6	432.9
1984	247	443.6
1985	282.2	454.3
1986	297.9	471.5
1987	344.4	580.8
1988	420.4	662
1989	473	737.6
1990	501.4	814.7
1991	506.6	874.7
1992	541.2	912.5
1993	575.5	988.5

Figure 2.4

**REGULAR VISITOR EXPENDITURES BY TYPE
OF ACCOMODATIONS**

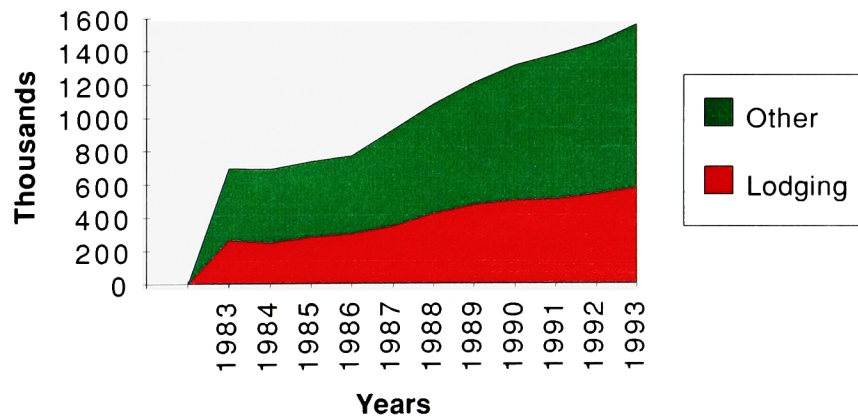


Table 2.5

NUMBER AND ORIGIN OF REGULAR VISITORS
(Thousands of People-Years)

Years	US	Foreign Countries	USVI
1983	1,201.30	365.2	28.3
1984	1,213.30	341.5	27.8
1985	1,274.30	347.4	20.6
1986	1,325.30	353.3	17
1987	1,550.30	459.6	25
1988	1,626.10	628.5	25.8
1989	1,716.40	701.5	25.9
1990	1,806.90	726.5	26.4
1991	1,833.60	752.7	26.7
1992	1,841.30	786.9	30.6
1993	1,996.90	830.5	29.2
1994	2,117.10	996	29.3

Source: PR Planning Board

Table 2.6

REGULAR VISITORS EXPENDITURES BY ORIGIN
(Million of Dollars-Years)

Years	US	Foreign Countries	USVI
1983	523.9	159.3	12.3
1984	529.4	149	12.1
1985	571.4	155.8	9.3
1986	601.4	160.4	7.7
1987	704.6	209	11.4
1988	771.9	298.3	12.2
1989	850.2	347.6	12.8
1990	929	373.5	13.6
1991	969.3	397.9	14.1
1992	1,006.70	430.2	16.7
1993	1,093.30	454.7	16
1994	1,162.10	491.8	16

The tourist dollar goes very far and has an incalculable circulation through the economy due to its multiplier effect. When a dollar enters in the economy it influences in different ways. The dollar spent by visitors turns into income for many economic sectors of the island. Figure 2.5 illustrates how tourist dollars are circulated in a community.

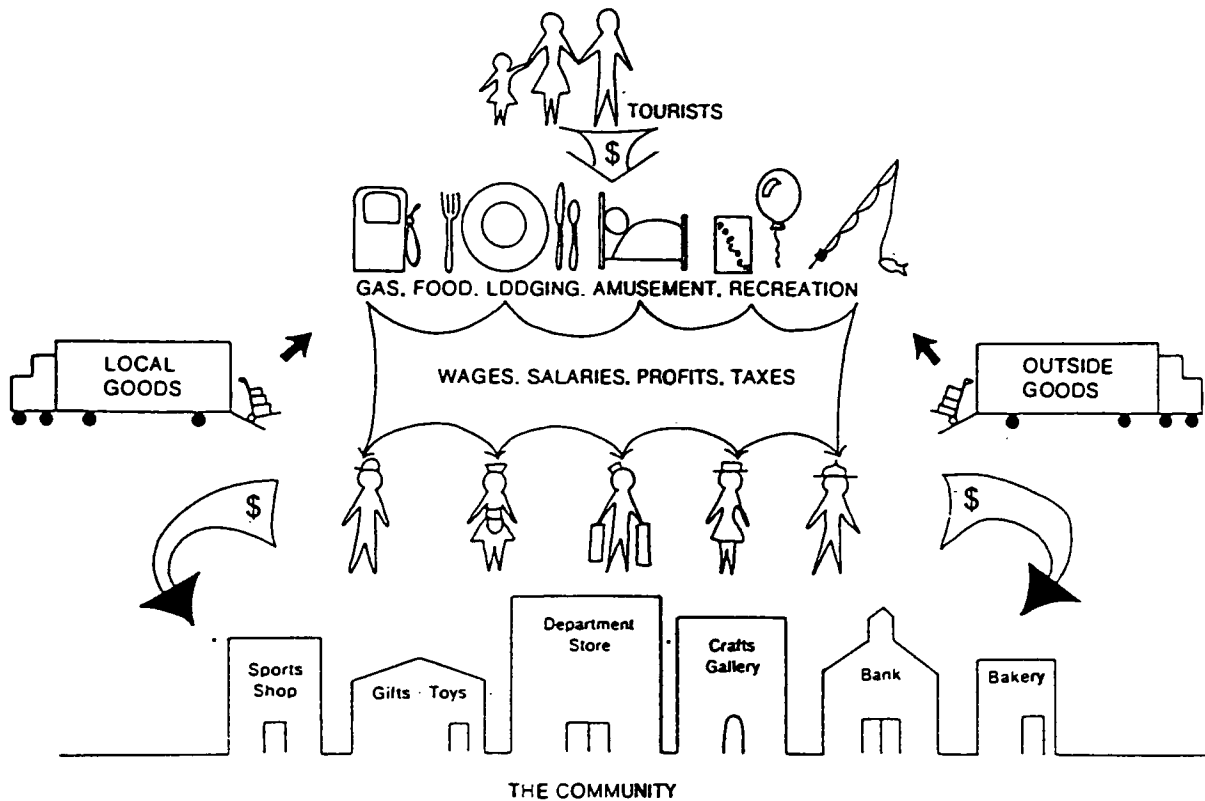
In Puerto Rico the tourist dollar benefits are more evident in sectors such as manufacture, services and imports, where the dollar distribution is larger. In 1993 the tourist dollar was broken down as follows: manufacturing 0.19, services 0.59, and imports 0.22. For obvious reasons the tourist dollar has a major influence in the service sector. Thus this sector comprises businesses and/or suppliers of major tourists demand. Table 2.7 shows the tourists dollar distribution by industrial sector.

The most impressive contribution of the tourist dollar is measured by jobs. The development of the tourism industry creates jobs overall for both skilled and unskilled employees. The total number of jobs attributed to tourism in fiscal 1993 was 52,603, including direct and indirect jobs. The service sector represents the largest amount of direct jobs generated by tourism (41,433.62), followed by Commerce which contributes with 15,242.86 jobs; and Manufacturing with 6,273.06 jobs. Table 2.8 shows the direct and indirect employments generated by tourism activity in 1993.

Perhaps the most significant way of measuring the impact of tourism in the economy is through its contribution to the Islands's Gross Domestic Product. This contribution has remained stable throughout the last ten years, hovering close to 6 percent (Table 2.9). The PRTC along with the government is targeting a significant increase in this indicator from 6 to 12 percent in a 10 year period.

Figure 2.5

Tourism and Your Community



Source: Tourism USA

Table 2.7

**TOURIST DOLLAR DISTRIBUTION
BY INDUSTRIAL SECTOR**

Sector	Dollar Break-down	Total distribution
AGRICULTURE	0	2.32
MANUFACTURE	0.19	245.89
Food Product	0.12	156.57
Milk Products	0.02	21.87
Bakeries	0.03	35.62
Sugar & Confetionaries	0	4.97
Beverages	0.02	27.89
Other Food Products	0.05	66.22
Cigarette Products	0.01	8.92
Clothing & Materials	0.04	45.73
Other Manufactured Products	0.03	34.66
SERVICES	0.59	745.92
Transportation, Comunication & other public services	0.11	141.4
Commerce	0.01	13.35
Hotels	0.29	371.64
Real States	0.12	152.86
Other Services	0.05	66.68
IMPORTS	0.22	273.88
TOTAL	1	1,268.00

SOURCE: PR Planning Board

Table 2.8

DIRECT AND INDIRECT EMPLOYMENT GENERATED BY TOURISM ACTIVITY
Fiscal Year 1993

Sector	Total Employment	Total Percentage	Total Domestic Production by Sector
AGRICULTURE	3,654.98	6.95	64.18
MINING & CONSTRUCTION	293.66	0.56	45.01
MANUFACTURE	6,273.06	11.93	704.22
Food Products	2,313.07	4.4	303.23
Milk Products	222.18	0.42	38.46
Bakeries	866.4	1.65	43.95
Sugar and Confitery Products	158.34	0.3	17.68
Beverages	277.12	0.53	60.73
Other Food Product	789.02	1.5	142.41
Clothing & Materials	1,789.09	3.4	57.33
Chemical & Oil Products	224.08	0.43	180.57
Other Manufactured Products	1,946.83	3.7	163.1
SERVICES	41,433.62	78.77	1,995.95
Transportation, Communication & other public services	4,140.41	7.87	366.49
Commerce	15,242.86	28.98	437.87
Finance, Insurance & Real States	2,363.89	4.49	420.75
Hotels	8,800.00	16.73	403.03
Commercial & Personal Services	1,477.76	2.81	104.64
Entertainment & Recreation	1,915.54	3.64	86.47
Health Services	4,208.12	8	60.58
Other Services	3,285.04	6.25	116.12
GOVERNMENT	947.37	1.8	19.44
TOTAL	52,602.68	100	2,868.80

Source: PR Planning Board

Table 2.9

**TOURISTS EXPENDITURES CONTRIBUTION TO THE
GROSS DOMESTIC PRODUCT AND EMPLOYMENT**
(Millions of Dollars-Years)

Years	GDP	Tourists Expenditures	Contribution to GDP	Employment
1983	16,840.40	708.40	4.5	29,388.00
1984	18,074.50	694.60	4.1	28,815.00
1985	18,444.70	728.60	4.2	30,226.00
1986	19,952.20	764.50	4.1	31,715.00
1987	20,934.60	913.50	4.7	37,897.00
1988	22,294.70	1,038.00	5.0	43,061.00
1989	23,395.80	1,122.30	5.1	46,559.00
1990	24,283.00	1,174.60	5.2	48,728.00
1991	24,840.00	1,173.40	5.0	48,678.00
1992	25,643.80	1,216.30	5.1	50,458.00
1993	26,474.80	1,268.00	5.1	52,603.00

Source: PR Planning Board

Tourism is a major source of income for the government of PR. Besides its direct economic impact, tourism has other non-economic benefits for the quality of life of the PR population. For example, part of the income generated by slot machines goes to a scholarship fund for the University of Puerto Rico. Other parts goes towards improve the preservation of historic and cultural areas of the Island.

Puerto Rico Tourism Activity

ATTRACTIONS

Puerto Rico as a tropical island is an attractive destination due to its natural resources; such as climate, beaches, landscapes, topography, vegetation, cave systems, thermal waters and luminous bays. Those resources are the most important factors in the planning and development of tourism in the island, since those provide the opportunity to assess many touristic niches.

The capital itself is a tourist center, which is distinguished by two different styles: Old San Juan and the Metropolitan Area. Old San Juan is the second oldest Spanish city settled in the New World. Its old buildings and fortifications (Spain colonial heritage) remain its historical significance. The Metropolitan area has modern architecture common to all contemporary cities. This area encompasses 300 square miles and a third part of the Island's population.

Puerto Rico as a destination can meet the essential visitors' expectations. In an attempt to identify different activities and sources, a variety of niches can be perceived. Visitors seeking cultural activities can find different activities around the metropolitan area, Ponce (south) and Mayaguez (west), have ballet, concerts and theater plays. Art museums and galleries can also be found. Visitors who enjoy shopping can find some of the largest shopping malls in the

Caribbean: Plaza Las Americas, Plaza Carolina and Plaza del Caribe among others. Night life seekers can enjoy the ambiance in the Old San Juan or select from eleven discotheques in different hotels in the metropolitan area.

The Island is also attractive for sport seekers. Because of the water resources sea sports are of great importance for some tourist niches, such as scuba diving, surfing, wind surfing, jet skiing, kayaking are each popular. Outdoor sports such as golf and tennis are common as well and has attracted the eyes of many fans through international tournaments celebrated in the Island. Other features such as universities, the observatory (one of the biggest in the world), the racetrack and the Bacardi rum distillery are also tourist attractions.

AIRPORTS-PORTS PHYSICAL FACILITIES

The Ports Authority is the public corporation in charge of airports and piers operations. This agency in accordance with the PR Tourism Company and the private sector, has focused efforts to improve some important facilities within the air and sea transportation areas. In order to improve physical facilities significant investments have been made. Since 1982, the Luis Munoz Marin International Airport has been modernized through a \$100 million investment. This includes terminal access, baggage and loading areas, as well as the overall maintenance. The Authority also invested around \$14.1 million for runways and gate improvements.

The Ports Authority has been also designing plans to improve the whole San Juan Harbor, which has required an investment of \$100.3 million. From this amount, \$83.1 million corresponds to constructions in the San Juan Bay, including expansions and tourist piers improvements. New facilities have been completed, which include anchorage capacities for two 80,000-ton

embarkations. These new piers have been designed to have a traffic of around 5,000 passengers.

Airlines and Cruise lines activity

The Luis Munoz Marin International Airport registered a traffic count of 8.9 passengers in 1993. This airport constitutes the principal point of access to the Island and offers the best air connections within the Caribbean, North America, South America and Europe. As a result of the efforts to improve the air transportation, the airlines servicing US and PR now offer an average of 15,000 daily seats compared with 6,000 offered in 1985.

American Airlines has been a crucial element in this attempt to boost air traffic. Since 1988 this airline has officially categorized San Juan as its international hub in the Caribbean. This Fact has contributed to enhance daily flights to 18 principal cities in the US and 17 other Caribbean destinations.

A total of 45 airlines provide transportation services between the Island, US, the Caribbean and Europe. Airlines such as TWA , Delta and USAir also provide service from San Juan and other cities in the US. Carnival Airlines offers non-stop flights from New York to Aguadilla (northwest town), and Ponce (south). Services to the Caribbean area are provided mainly by American Eagle and Sunaire Express. Other seasonal airlines also exist.

The fact that San Juan has become one of the principal hubs for North American carriers in the Caribbean, has aroused the interest of European airlines in creating more routes between PR and Europe. This includes 2 weekly flight to London by British Airways; 4 weekly flights to Frankfurt by Lufthansa and 4 weekly flights to Madrid by Iberia (Spanish Airlines).

Puerto Rico is at the forefront of the international cruise movement. Today, it is receiving a total of 62 cruises from which 24 utilize San Juan as

their home port. Within the most important cruise lines are: Royal Caribbean (Monarch and Sovereign of the Seas), Norwegian Cruise lines, and Costa Cruise lines.

Due to the favourable reception of tour packages, the cruise activity has benefited from the increase of airlines services. In some way, cruiselines depend on flight connections and airlines arrangements to create their own packages and offers. The 1993 tourist statistics registered a total of 1,014,490 cruise passengers (or special visitors). The total of visitors including air and sea passengers reached 3,871,119 in 1993.

GROUND TRANSPORTATION

The Public Service Commission is the government agency in charge of every aspects of the public transportation. This agency controls taxis, public cars and limousine services; sets fares and carries out inspection often to assure the use of taximeters. The commission also provides loans to those drivers that need financing help to acquire their vehicles. The commission supervises the performance of these drivers and sets specific towns and routes for them. Limousines service the airport and hotels in the Metropolitan area. They charge a fixed fare by passenger.

There are also tour operator enterprises that provide ground transportation to groups or individuals. These tours, itineraries, and fares are also approved by the Public Service Commission. These tour operators provide transportation from hotels to different areas of interest, such as: San Juan City, the Rain Forest, Ponce City (south), Bacardi Rum distillery and other places upon tourist request.

Several car rental companies provide service for the Island. Some of these companies are: Avis , Budget, Hertz, Thrifty and Atlantic (a local company).

HOTEL INDUSTRY

In PR, the hospitality industry constitutes the most important supplier in the tourism industry. There is a total of 106 lodging facilities approved by the PR Tourism Company. Lodging facilities are categorized as follows: 56 hotels, 20 paradores, 28 guest houses and 2 resorts. These facilities fulfill the requirements of the Health Department, the PR Planning Board and the Fire Department.

These lodgings facilities represent more than 8,400 rooms from which 68 percent are located in the metropolitan area. Hotels most recognized are: Caribe Hilton (733 rooms), Condado Plaza (587 rooms), San Juan Hotel and Casino (392 rooms), Sands Hotel and Casino (417 rooms), and Hyatt Cerromar (504). During the last year, the PR Tourism Company has negotiated the financing and construction of 1,400 new rooms with important hospitality firms such as Marriott, Wyndham and Westin.

Since 1970, a new type of tourist center has been developed in the Island, Known as Condo Hotels. These are facilities composed of apartment units which are rented by private investors for a period of time every year. These investors acquire the right of use or licenses through a financing plan. These facilities operate as hotels, and can be rented by non-owners when these are not occupied. An example of a Condo Hotel is Palmas del Mar in Humacao (east).

In PR, hotels operate on three different plans: the European plan which includes only the hotel rate; the Continental plan which offers room and breakfast; and the American plan which includes room breakfast and dinner. Sometimes the American plan can include 3 meals.

Hotels represent a government investment of \$400 million, This investment was carried out to improve the physical structures of some facilities and to start-up new operations in the Island. Even though the government made a large investment in the hotel industry, it allowed private firms to operate them. Hotels operating by this arrangement are: El Convento, Condado Beach Hotel, Caribe Hilton, Mayaguez Hilton and Ponce Hilton.

The definitions of tourist hotel and commercial hotel correspond to the old Tax Exemption Law of 1948. This law demands a minimum of 15 rooms, parking lot, entrance hall, dinning room or restaurant, a bar or lounge area and sanitary services. Even though both types of hotels shared the same requirements, there were some differences between them. For example, the tourism hotel received full tax exemption , while the commercial received only fifty percent benefit. Also, the commercial hotel was required to have a swimming pool and/or recreation facilities such as golf and tennis courses. Services and designs required higher investments and labor costs.

Today, hotels are not differentiated by these two categories, since most of the hotels are trying to serve both segments: business and leisure guests. The new Tax Exemption Law (1993), provides 90 percent exemption on income and property, and 100 percent exemption on taxes and licenses (patents) for 10 years that can be extended to 20 years.

The 1948 Hoteliers Law #85, regulates the relations between hoteliers and guests. It establishes cashing procedures, reservations, and stock deposits among other aspects. In PR, the law does not allow the state to

control hotel rates. These are fixed by each firm depending on supply and demand factors. Antitrust laws are applicable in this situation to avoid collective actions from the hospitality sector, since this would affect the free trade.

Casinos

After a thorough investigation, the gambling law was approved in 1957. Today there are 12 casinos operating in different hotels of the Metropolitan area. These casinos are supervised by the Gambling Department. This is a government agency in charge of initiated and finish casinos' operations; supervising table, cashier and equipment. Inspectors of this department are available in casinos at any time, to offset customers' complaints and/or rules misunderstandings.

The purpose of casinos in PR is to strengthen the hotels' income, allowing them to provide more sophisticated services with higher levels of employment. The government is trying to maintain casinos as a complementary attraction in comparison with natural resources, culture and other attractions. The type of games permitted in the Island are Craps, Black Jack or 21, Roulette, Baccarat, mini Baccarat and Slot Machines.

The Puerto Rico Tourism Company

The Puerto Rico Tourism Company (PRTC) is the primary agency responsible for carrying out the government tourism policy. It is in charge of designing, coordinating and supervising the planning and decision-making process of the entire tourism industry.

PRTC is a public corporation composed of an executive board designated by the Senate of PR. This executive board formulates the public tourism policy and designates the executive director, whom manages and supervises every area of the company. The present executive director of PRTC is Luis G. Fortuño, ESQ. The company is divided in the following areas: Marketing and Advertising; Operations; Planning and Development; Financing and Investment; and the Hospitality Development Corporation.

The principal functions of PRTC (according with law # 10 of 1970) are:

- Defining and up-to-date short, medium, and long term goals, along with their implementation and supervision.
- Identifying the infrastructure needs; developing and improving every aspect of the tourism-product, including services, transportation and lodging facilities, environment and special attractions,
- Developing marketing, advertising and promotion strategies; as well as identifying potential markets and different segments.

The PRTC operates three intercontinental divisions: North America, headquartered New York; Europe, with central office in Madrid; and Central, South America and the Caribbean directed from San Juan. The company also runs promotional offices in Los Angeles, Miami, Chicago and Frankfurt. It accounts with sales representatives in 13 cities of the US and other international cities such as Toronto (Canada), Milan (Italy), Paris (France), London (England) and Mexico City.

These intercontinental offices are the major communication tool for PRTC to carry out promotional activities. They are in charge of promoting the PR tourism-product throughout the assigned areas. The major promotional tools are video presentation, seminars and road shows. These activities are mainly directed to wholesalers, travel agencies and potential customers. Monthly, PRTC (San Juan) prepares special meetings to invite international travel agents in order to present the Islands attractions and to develop promotional efforts. This activity is very important since travel agents and wholesale tour operators constitute the principal intermediaries between the customer and the PR tourism-product.

Marketing efforts are coordinated with private firms, airlines and hotels, chains among other tourism related agencies. These agencies compose a marketing committee that meets periodically, to set short and long term plans. To increase the effectiveness of these sources, a combined advertising campaign is carried out, mainly with airlines and wholesalers, to promote Puerto Rico as a destiny.

As a promotional tool, PRTC publishes a tourist official guide: "Que Pasa en PR" (what's Up in PR) which is published quarterly and distributed to visitors and travel agents. This guide is available in Spanish, English, French and German.

The advertising campaigns that have taken place during this period are the following:

- Discover the Continent of Puerto Rico: It is the advertising campaign that is being carried out internationally. It promotes PR as a destination that has a variety of vacationing experiences to offer, which transmits the idea of a small continent.

-Escape to the Island: This campaign is directed to the PR inhabitants in order to develop local tourism. The intent is to promote the “Paradores” program along with the attractions and natural resources outside the Metropolitan Area. These sources are also promoted to US and international visitors.

-Puerto Rico Does it Better: This is another local advertising campaign that involves employees of the tourism industry. In this campaign, front line employees of all areas (hotels, airline restaurants) wear a green button with their names and a code number. Tourist then have the opportunity to identify the employee (s) who made their stay more pleasant. Their selections are place in a special post-paid comment-card (addressed to the governor of PR) and mailed. Once the votes were tabulated the best employees were granted with different trips and tours. This program was an intent to reward employees for their work and to encourage them to improve the quality of services.

In this chapter we have seen a complete overview of the tourism activity in Puerto Rico, its different areas and performances. Everything seems to indicate that Puerto Rico has a strong tourism activity which is able to compete internationally. Also, the advertising campaigns that have taken place show a country with a variety of sources to offer to a variety of tastes.

But, is Puerto Rico really prepared to fulfill future visitors needs? If the Island has diverse sources and attractions to offer, and its focusing enormous efforts to improve its marketing capacity, why it has not been able to enhance its competitive advantage? What is limiting Puerto Rico of occupying a better competitive position?

CHAPTER 3

Findings and Data Analysis

This study focuses on the identification of limiting conditions affecting the growth of tourism in Puerto Rico. Several problems have been identified throughout the data collection process. The growing actions and limiting conditions were used to create Limits to Growth cycles. Then the findings were then charted on a matrix scheme to demonstrate the relationships.

High Hotel Room Rates

Today, one of the major problems confronted by the PR tourism industry is the high hotel room rates. This problem places PR in an unfavorable position compared to other destinations. The high operating and labor cost has forced hoteliers to increase room rates in order to cover expenses and raise revenues.

Hoteliers and top executive managers agree that archaic labor laws are the major reason why they have not been able to offer a less expensive tourism product. At the same time these labor laws scare off additional island investment and reduce Puerto Rico's competition in the global market.

Highly restrictive labor laws translate into higher average hotel room rates, which put the island at disadvantage in a world of increasingly educated consumers who have their eyes peeled for the best price-value ratio when choosing vacationing destinations. Some of the regulations that increase hotel operating and labor costs are the following:

•The employer shall pay as overtime the extra hours worked by an employee after completing 8 hours of work in a period of 24 hours.¹

In the US this regulation is not applicable.

•The employer shall pay as overtime the extra hours worked by an employee after completing 40 hours work in a period of 168 consecutive hours.

In the US, hoteliers pay time and a half.

•The employer shall pay as overtime when there is a change in schedule and the meal break is taken after the break the employee took the day before.

For example, if an employee starts working today at 8:00 am and works 8 hours, and he has to work tomorrow at 7:00 am for breakfast, that earlier hour should be paid double. According to the law, an employee with less than 16 rest hours between shifts should receive overtime compensations, even though he/she does not work more than 8 hours. "PR is getting in a no competitive position. We cannot compete with other destinations in the Caribbean because the cost are so high" says Anibal Irizarry, a labor lawyer for McConnell-Valdes who is working on proposals to amend the labor laws.²

¹ Government of PR, Labor Department. *Hotel Industry [Mandatory Decree]*

² Anibal Irizarry (interview) June 14, 1994, San Juan, PR.

•The lunch (or dinner) break must be taken between the third and fifth hours of an eight hour work period.

This regulation sometimes does not apply to the hospitality industry since in most cases the employees' break time coincides with the hour of more activity in restaurants and banquets. "What if a waiter comes in at 4 PM and wants to earn extra tips during the restaurant's peak hours from 7:00 to 10:00 PM? Due to antiquated laws, he will have to take an hour break sometime during that period" said Rick Newman, vice president of operations for Sands Hotel and Casino.⁴

•Every employee working more than 24 hours a week, but less than 32, even though he/she is available for work, shall, except in cases of Acts of Gods, be entitled to a weekly salary not less than that resulting by multiplying by 32, the regular rate per hour.

The "Minimum Weekly Compensation Guarantee" is another regulation that increases labor cost in hotels. "In low tourism season the hotel does not need all the employees; however, we must keep all the personnel and pay them 32 hours, even though they have not work 32 hours" said Yolanda de León, Human Resources Supervisor for H. I. Development.³

Puerto Rico's average hotel room rate per night is \$92, 18% above the Caribbean average of \$77, and 8% above the Mainland average of \$85. According to Rick Newman, Vice President of Operations for Sands Hotel &

³ Yolanda de León, (interview), July 25, 1994.

⁴ Neggers Xavira, Tourism Industry tied and bound by archaic labor laws, *Caribbean Business*, March 10, 1994.

Casino, "it is hard to expect people investing in the Island if a return after the bottom line cannot be assured."

Puerto Rico has the world's highest operating costs, comprising 72% of total hotel revenues over the 1988-1992 period, according to Pannell Kerr and Foster⁵ statistics. Over the same period, the percentage of total revenues for operating costs in the following countries/regions were: 61% for the US Mainland; 60% for Canada; 55% for the Caribbean; 52% for Europe; and 35% for Mexico and Latin America. In PR, for every dollar in local hotel revenue, about 50 cents goes toward employee payroll, 50% more than the US average of 25 cents.

For 1992, the gross operating profit (GOP) of PR's hotels comprised of a mere 12% of total revenues. In comparison, the hotel GOP for total revenue for the following respective countries/ regions were: 22% in the US Mainland; 24% in Mexico; 11% for the Caribbean; 28% in Europe; 23% in Canada and 26% in Latin America.

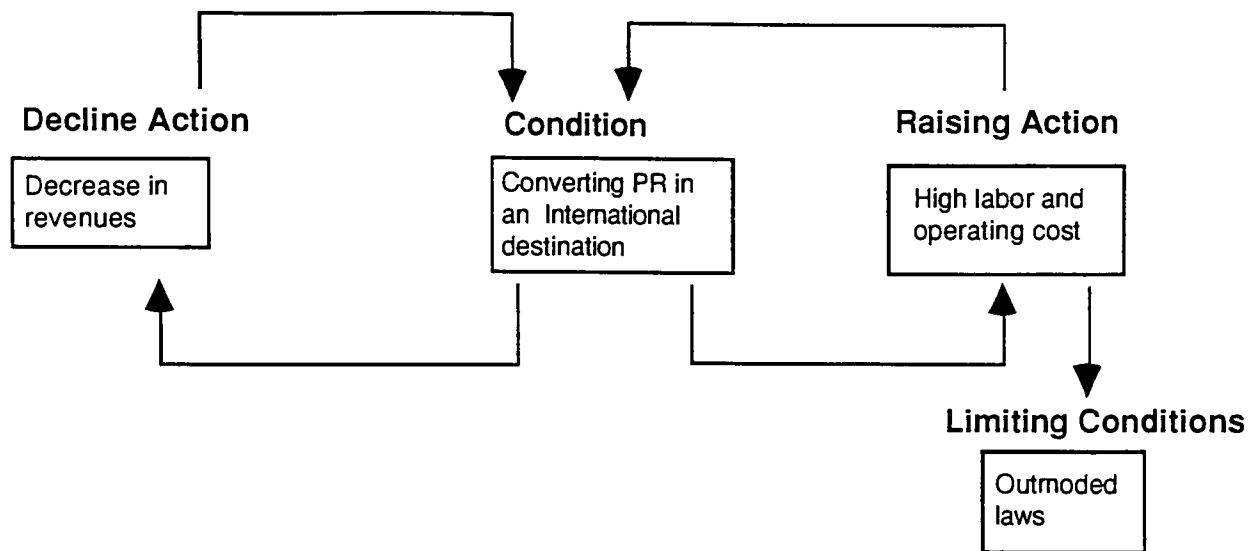
The four laws that have been presented in this section are an example of how outmoded laws does not allow the employer to be more flexible in terms of shifts and wage system. These laws date from 1940s when industrialization in the Island was just emerging. Today these laws are costly to the hotel-tourism environment. The service provided in the industry requires more flexible regulations that can fulfill management and employee needs.

The following limit to growth cycle shows how the system behaves in this particular problematic situation. Here the condition is affected by antiquated

⁵ Pannell Kerr and Forster is a certified public accounting firm that specializes in the hospitality industry.

⁵ PKF International Consulting, *International Hotel Trends*, a statistical summary, 1993 edition.

laws that cause high labor and operating cost and results in a decrease in revenues.



COMPETITION IN THE CARIBBEAN (NUMBER OF ROOMS)

Competition is not a topic that can be discussed in just one section as a sole problem. Competition is been affected by all the problems and limitations surrounding the Island as a tourist product. Generally, when tourism executives refer to PR in the Caribbean context, they base the comparisons in terms of hotel room rates and number of rooms available.

According with the Caribbean Hotel Association, PR is the destination that receives more visitors in the Caribbean. However, it is still at a disadvantage in terms of number of rooms compared with other destinations of the region. PR received 2,856,600 tourist in 1993, more visitors than any other

island. However, with 8,581 rooms available, PR does not match the number of other Islands, such as Dominican Republic with 26,801; Cuba with 22,561 and Jamaica with 18,935 rooms (see table 3.1).

In Puerto Rico a major increase in hotel rooms in ten years took effect in fiscal 1994. The number of rooms increased 13%, because the Conquistador Resort and Country Club⁵ with 750 rooms opened. The 1995 and 1996 period represents a step ahead in this situation, due to the opening on January of the San Juan Marriott Hotel and Casino with 525 rooms. In 1996 two new hotels will be starting business in the Island: The Wyndham Old San Juan Hotel and Casino with 242 rooms and Westin Rio Mar Beach Resort and Country Club with 600 rooms.

Increasing the number of rooms to promote tourism has been difficult, since the high labor cost does not lure the investment of additional hotel projects. "It has not been a good investment based on Return on Investment, it has been poor. Return on Investment has been better in places where labor cost are much lower" said Richard Abati, president of PR Hotel and Tourism Association.⁶

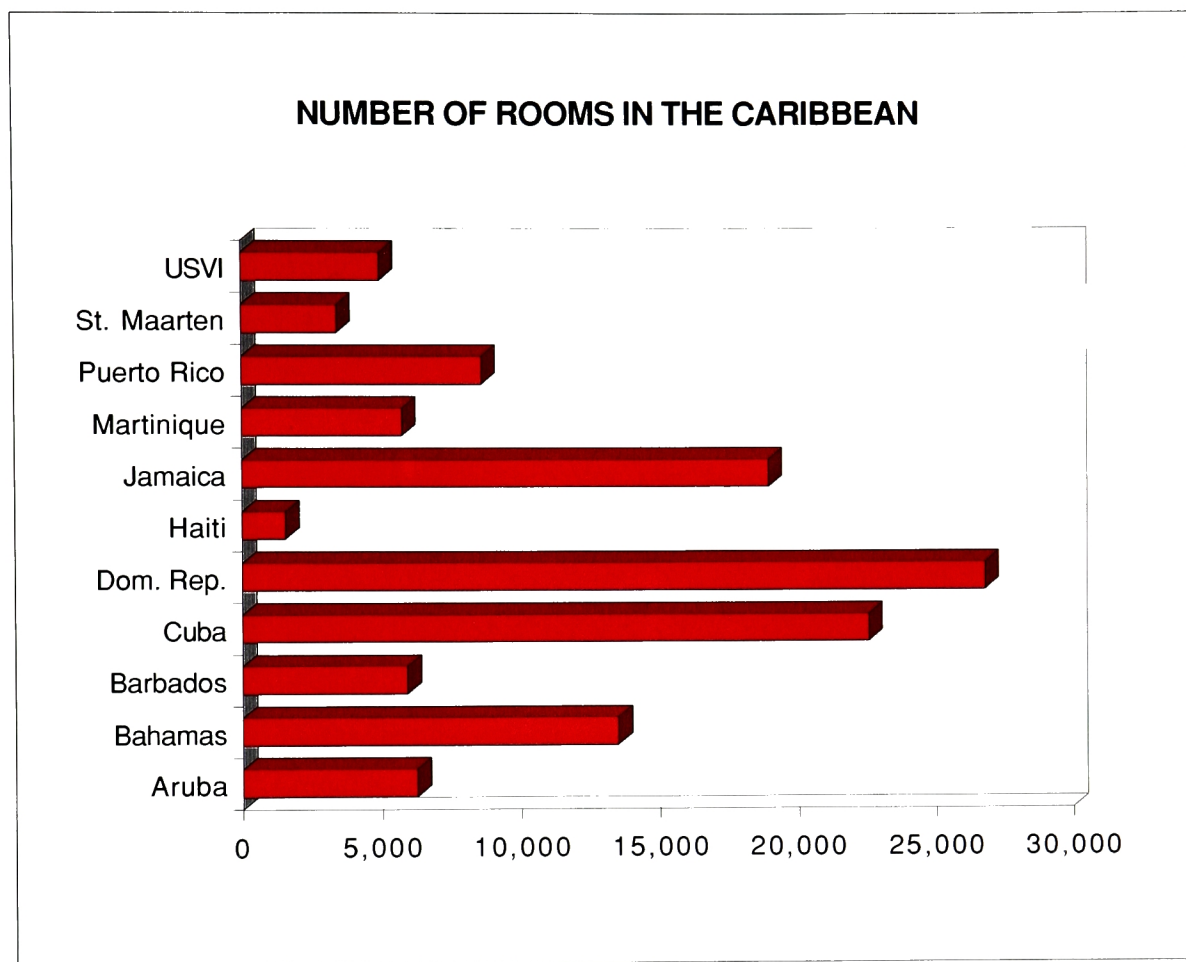
Other tourism related executives have said, increasing the number of rooms is crucial to the development of tourism industry. And to increase the economic GPA contribution from 6% to 12%. "To have a good tourism activity, we should double the number of rooms" said the economist Augusto Amato.⁷

⁵ **El Conquistador:** new hospitality facility built in the east side (Fajardo) of the island.

⁶ Pascual Aixa, Still Insufficient Beds. *El Nuevo Día*, December 5, 1994.

⁷ Augusto Amato, (interview), December 13, 1994, San Juan, PR.

Table 3.1



Source: Caribbean Tourism Organization